



## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2003.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The subsidiaries, jointly controlled entities and associates of the Company are principally engaged in the trading of agricultural products, feedmill and poultry operations, the manufacturing and sale of motorcycles and accessories for automotives and property and investment holding. Other than the disposal of Turkish operations during the year, there were no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical location of operations are set out in notes 5 and 13 to the financial statements, respectively.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st December, 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 120.

The directors do not recommend the payment of any dividend in respect of the year.

### SUMMARY FINANCIAL INFORMATION

The consolidated assets, liabilities and minority interests, and results of the Group for the five years ended 31st December, 2003, as extracted from the published audited financial statements, are as follows:

	2003 US\$'000	2002 US\$'000	2001 US\$'000	2000 US\$'000	1999 US\$'000
Total assets	1,020,778	1,109,076	1,081,488	1,340,541	1,341,274
Total liabilities	871,381	875,980	933,287	1,186,340	1,154,019
Minority interests	49,023	81,497	79,581	77,235	82,801
Shareholders' equity	100,374	151,599	68,620	76,966	104,454
	1,020,778	1,109,076	1,081,488	1,340,541	1,341,274
Net profit/(loss) from ordinary activities attributable to shareholders	(62,758)	92,602	(10,298)	(51,154)	(13,679)



## REPORT OF THE DIRECTORS (CONTINUED)

### FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 17 to the financial statements.

### INVESTMENT PROPERTIES

Details of movements in the Group's investment properties are set out in note 18 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in note 34 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31st December, 2003, the Company had a contributed surplus of US\$6,093,000 (2002: US\$6,093,000) which is distributable to shareholders under certain prescribed circumstances. In addition, the Company's share premium account in the amount of US\$51,210,000 (2002: US\$51,210,000) may be distributed in the form of fully paid bonus shares. The directors presently have no intention of distributing any of the above distributable reserves.

### DONATIONS

During the year, the Group made contributions for charitable and other purposes totalling US\$1,411,000 (2002: US\$380,000).

### MAJOR CUSTOMERS AND SUPPLIERS

The turnover and purchases attributable to the five largest customers and suppliers accounted for less than 30% of the total Group's turnover and purchases for the year, respectively.



## REPORT OF THE DIRECTORS (CONTINUED)

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Dhanin Chearavanont	
Sumet Jiaravanon	
Prasert Poongkumarn	
Min Tieworn	
Thirayut Phitya-Isarakul	
Thanakorn Seriburi	
Veeravat Kanchanadul	
Jaran Chiaravanont	(appointed on 28th April, 2003)
Montri Jiaravanont	(appointed on 28th April, 2003)

Independent non-executive directors:

Budiman Elkana
Cheung Koon Yuet, Peter

In accordance with the Company's bye-laws, all directors shall continue to hold office. The independent non-executive directors of the Company are appointed for a term of one year in accordance with the Company's bye-laws.

### DIRECTORS' SERVICE CONTRACTS

No director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Details of the directors' interests in contracts are set out in note 41 to the financial statements.

Except as disclosed in note 41, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At the balance sheet date, the interests and short positions of the directors and chief executive and their associates in the issued share capital of the Company and its associated corporations as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:



## REPORT OF THE DIRECTORS (CONTINUED)

### Shares and underlying shares of the Company:

Name of director/ chief executive	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned (1)	Through controlled corporation (1)	Total number of shares (1)	
Jaran Chiaravanont	843,750(L)	-	843,750(L)	0.04
Dhanin Chearavanont	-	1,066,662,834(L)	1,066,662,834(L) <sup>(2)</sup>	49.42
	-	114,005,850(S)	114,005,850(S)	
Sumet Jiaravanon	114,005,850(L) <sup>(3)</sup>	1,066,662,834(L) <sup>(4)</sup>	1,066,662,834(L) <sup>(4)</sup>	49.42
	-	114,005,850(S)	114,005,850(S)	

### Notes:

- (1) The letter "L" denotes a long position whilst the letter "S" denotes a short position.
- (2) 428,441,073 shares were held by Perfect Investment Limited, 524,215,911 shares were held by Pakeman Co. Inc. and 114,005,850 shares were held by CPI Holding Co., Ltd. Messrs. Dhanin Chearavanont and Sumet Jiaravanon have direct beneficial interests in these three companies: 50% and 45% in Perfect Investment Limited; 33.5% and 33.5% in Pakeman Co. Inc. and 38.35% and 38.35% in CPI Holding Co., Ltd. respectively.
- (3) 114,005,850 shares are part of the 1,066,662,834 shares in which Mr. Sumet Jiaravanon was also interested.
- (4) 1,066,662,834 shares are duplicated in the corporate interest attributable to Mr. Dhanin Chearavanont.

### Long positions in shares and underlying shares of associated corporations:

Name of director/ chief executive	Name of associated corporations	Relationship with the Company	Number of			Percentage of the associated corporation's issued share capital
			Shares	shares held	Capacity and nature of interest	
Thanakorn Seriburi	Chia Tai Quanzhou Company Limited	Company's subsidiary	Ordinary shares	20,000	Directly beneficially owned	2.0

Save as disclosed above, none of the directors and the chief executive or their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



## REPORT OF THE DIRECTORS (CONTINUED)

### SHARE OPTION SCHEMES

Apart from the share option schemes set out in note 34 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouses or their minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Concerning the share options granted during the year to the directors, substantial shareholders and employees, as detailed in note 34, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the value of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At the balance sheet date, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Notes	Capacity and nature of interest	Number of shares held (1)	Percentage of the Company's issued share capital
Citigroup Inc.	(2)	Security interest, investment manager and beneficial owner	181,886,124 (L)	8.43
Charoen Pokphand Overseas Investment Company Limited	(3)	Beneficial owner	195,834,452 (L)	9.07
Charoen Pokphand (Hong Kong) Company Limited	(3)	Interest of a controlled corporation	195,834,452 (L)	9.07
Chia Tai International Investment Company Limited	(4)	Beneficial owner	232,606,621 (L)	10.78
Charoen Pokphand (China) Company Limited	(4)	Interest of a controlled corporation	232,606,621 (L)	10.78
Charoen Pokphand Holding Company Limited	(5)	Interest of controlled corporations	428,441,073 (L)	19.85
Perfect Investment Limited	(6)	Interest of controlled corporations	428,441,073 (L)	19.85
Pakeman Co. Inc.	(7)	Beneficial owner	524,215,911 (L)	24.29



## REPORT OF THE DIRECTORS (CONTINUED)

Name of shareholders	Notes	Capacity and nature of interest	Number of shares held (1)	Percentage of the Company's issued share capital
CPI Holding Co., Ltd.	(8)	Beneficial owner	114,005,850 (L) 114,005,850 (S)	5.28
C.P. Intertrade Co., Ltd.	(8)	Interest of a controlled corporation	114,005,850 (L) 114,005,850 (S)	5.28

### Notes:

- (1) The letter "L" denotes a long position whilst the letter "S" denotes a short position.
- (2) Of the 181,886,124 shares held by Citigroup Inc., 181,503,699 shares were held as security, 364,625 shares were held as investment manager and the balance of 17,800 shares were held beneficially.
- (3) Charoen Pokphand Overseas Investment Company Limited ("CP Overseas") beneficially owned 195,834,452 shares. Charoen Pokphand (Hong Kong) Company Limited ("CP Hong Kong") has declared an interest in these same 195,834,452 shares by virtue of its shareholding in CP Overseas.
- (4) Chia Tai International Investment Company Limited ("CTII") beneficially owned 232,606,621 shares. Charoen Pokphand (China) Company Limited ("CP China") has declared an interest in these same 232,606,621 shares by virtue of its shareholding in CTII.
- (5) Charoen Pokphand Holding Company Limited ("CP Holding") has declared an interest in an aggregate of 428,441,073 shares which comprised the 195,834,452 shares referred to in note (3) above by virtue of its shareholding in CP Hong Kong and the 232,606,621 shares referred to in note (4) above by virtue of its shareholding in CP China.
- (6) Perfect Investment Limited has declared an interest in the same 428,441,073 shares in which CP Holding has declared an interest in note (5), by virtue of its shareholding in CP Holding.
- (7) Pakeman Co. Inc. beneficially owned a total of 524,215,911 shares in the Company.
- (8) CPI Holding Co., Ltd. beneficially owned 114,005,850 shares. It also has a long and short position in such number of shares. C.P. Intertrade Co., Ltd. has declared an interest in these same 114,005,850 shares by virtue of its shareholding in CPI Holding Co., Ltd.

Save as disclosed above, no person, other than the directors and the chief executive of the Company, whose interests and short positions in shares and underlying shares are set out above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



## REPORT OF THE DIRECTORS (CONTINUED)

### CONNECTED TRANSACTIONS

Transactions made during the year as set out in notes 41(a) to (c) to the financial statements under the heading of “Related party transactions” were connected transactions.

The independent non-executive directors have confirmed that the connected transactions arose in the ordinary and usual course of the Group’s businesses and they were entered into based on normal commercial terms and in accordance with the terms of the agreements of the underlying transactions.

### COMPETING BUSINESS

Pursuant to Rule 8.10(2) of the Listing Rules, details of the interests held by the directors of the Company in business, which compete or are likely to compete with the Company, are disclosed as follows:

#### BEIJING DAFA CHIA TAI CO. LTD. (“BEIJING DAFA”)

Beijing Dafa is a Sino-foreign owned enterprise established in the PRC in which Messrs. Dhanin Chearavanont and Sumet Jiaravanon, directors of the Company, ultimately own 50% and 45% interests, respectively.

Beijing Dafa is engaged in the broiler integration business for both domestic consumption in the PRC and for export. Its turnover amounted to RMB1,503.0 million for the year ended 31st December 2003. Beijing Dafa may compete with the joint ventures under the Company which are engaged in similar business.

Beijing Dafa is managed by a separate management team and the business transactions are carried out at arm’s length and at the prevailing market prices.

### PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December, 2003, the financial assistance and guarantees given to and for affiliates in aggregate amounted to approximately 32.2% of the audited consolidated net tangible assets of the Company as at the same date. Furthermore, there were covenants in certain loan agreements of the Group relating to specific performance obligations of the Company’s controlling shareholders.

The following information is hereby disclosed pursuant to Practice Note 19 of the Listing Rules:



## REPORT OF THE DIRECTORS (CONTINUED)

- (i) Information extracted from the PRC audited balance sheets as at 31st December, 2003 of the affiliates to which the Company has provided financial assistance is as follows:

Name of affiliates	Equity interest owned by the Group	Total	Total	Net asset value/ (deficiency in assets)
		assets	liabilities	in assets)
		US\$'000	US\$'000	US\$'000
Beijing Chia Tai Feedmill Limited	33%	9,698	5,721	3,977
Beijing Poultry Breeding Company Limited	36%	16,506	9,866	6,640
Han Dan Chia Tai Feed Co., Ltd.	50%	3,163	2,681	482
Hunan Chia Tai Rice Industry Co., Ltd.	40%	1,690	709	981
Kaifeng Chia Tai Company Limited	50%	31,375	28,116	3,259
Nantong River Mouth Bio-Tech Co., Ltd.	33%	7,591	5,842	1,749
Tangshan Chia Tai Feedmill Co., Ltd.	38%	2,630	4,249	(1,619)
Total		72,653	57,184	15,469

- (ii) Information extracted from the balance sheets as at 31st December, 2003 of the affiliates to which the Company has provided guarantees for facilities/loans offered to them is as follows:

Name of affiliates	Equity interest owned by the Group	Total	Total	Net asset value/ (deficiency in assets)
		assets	liabilities	in assets)
		US\$'000	US\$'000	US\$'000
Beijing Chia Tai Feedmill Limited	33%	9,698	5,721	3,977
ECI-Metro Investment Co., Ltd.	50%	43,924	28,655	15,269
Han Dan Chia Tai Feed Co., Ltd.	50%	3,163	2,681	482
Jilin Chia Tai Company Limited	45%	4,517	7,982	(3,465)
Jilin Chia Tai Enterprises Co., Ltd.	50%	15,944	6,232	9,712
Kaifeng Chia Tai Company Limited	50%	31,375	28,116	3,259
P.T. Centralpertiwi Bahari	7%	156,527	166,695	(10,168)
Total		265,148	246,082	19,066





## REPORT OF THE DIRECTORS (CONTINUED)

- (iii) Loan agreements with covenants relating to specific performance obligations of the Company's controlling shareholders are summarised below:

Certain banking facilities of the Group impose a requirement for a specified minimum shareholding level in the Company (being, in one facility, 50%, and, in further two facilities, 51%) to be maintained by the Company's controlling shareholders, who hold an approximate 49.4% interest in the issued share capital of the Company. Although the Company's controlling shareholders do not maintain the specified minimum shareholding level as imposed by several banks, the Company has entered into the formal Group restructuring agreement with its bank creditors on repayment of the outstanding amounts. As at 31st December, 2003, the outstanding amount owing by the Group under these facilities aggregated approximately US\$7,760,000.

As announced by the Company in 1998, the Company was unable to redeem certain of its floating rate notes upon their early redemption which, as a result of cross-default provisions, constituted an event of default under its other floating rate notes and the credit facilities provided by certain of its bank creditors. Such facilities include those referred to above with minimum shareholding covenants.

### SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in note 44 to the financial statements.

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report.

### AUDIT COMMITTEE

The Audit Committee comprised the two independent non-executive directors of the Company. The establishment of the Audit Committee serves to enhance corporate governance practices. The principal duties of the Audit Committee include the reviewing and supervising of the Company's financial reporting process and internal controls. The Audit Committee met twice during the year to review the Company's financial statements prior to the finalisation of the interim and final results.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

### ON BEHALF OF THE BOARD

**Sumet Jiaravanon**

*Director*

Hong Kong

2nd April, 2004